Mark Stuart, CEO Waikatolink
Speech to AngelLink launch

Welcome and thanks

I'd like to welcome everyone to the launch of AngelLink this evening. Many of you have travelled significant distances to be here and I'd like to express our appreciation for your support.

In particular, I'd like to welcome the Honourable Dr Wayne Mapp, Minister for Research Science and Technology, and thank the NZX and Mark Weldon for hosting the launch of AngelLink.

Many people have worked tirelessly over the last 10 months to put AngelLink together. I would like to thank all of those people and make special mention of: *Helen Cross, Lynda Hitchcock, Sandra Lukey, Duncan Mackintosh, Greg Sitters, Richard Palmer, Rory MacGillicudy and Chris de Boer.*

Maximising the return from innovation

At a time when the world economy is under so much pressure, when existing ways of doing business are being challenged, it should be apparent to all of us that maximising return from innovation is more important than ever to New Zealand's prosperity. This won't happen if we keep doing things as we have been doing them within the innovation ecosystem. Government and the science, business and investment communities must have a shared vision and common goal. They must understand why start-ups are essential and that the success of start-ups in a small country like New Zealand depends on collaboration.

Innovation

Firstly, it is important that we understand the role of science in innovation.

Innovation is the result of invention or discovery combined with application, which in the innovation ecosystem means commercialisation.

Innovation is either evolutionary or revolutionary:

Evolutionary innovation incrementally improves existing products and technologies. It results in a competitive edge or the next generation of innovative products. It requires close engagement with industry. Evolutionary innovation provides a fast return on investment and the path to market is almost always through existing companies.

Revolutionary innovation on the other hand, creates entirely new, often unexpected, products and sometimes new industries. The extraordinary returns come because unexpected new products have the most impact and fewest competitors... because no one saw them coming. Revolutionary (or disruptive) innovation offers huge opportunities for large export revenues and the creation of high paying jobs within New Zealand.

Start-ups

Start-ups are essential because they are the primary channel for taking revolutionary innovation to market. Existing companies and organisations focussed on evolutionary innovation are not geared to recognise and commercialise entirely new and unexpected

products or start new indistries. Having accepted that revolutionary innovation is essential to New Zealand's prosperity; start-ups must be encouraged and supported.

I'm going to tell you a story that shows that even projects that show enormous commercial potential can fail because of a lack of collaboration in the innovation ecosystem.

Seven years ago when I joined WaikatoLink one of the first projects I worked on was an exciting biotech project. It seemed to have enormous commercial potential. We sensed that keeping the project low key was necessary to protect this upside.

Limited resources meant that progress on the science and commercial development was slow. The funding constraint meant that opportunities to broaden what was a single point solution into a platform could not be pursued. When we were ready to start selling and seek investment, we found that another university, and a CRI, had both been working on similar projects. These other organisations were similarly constrained.

The lights went out on all 3 programmes.

We were competing for the same customers. None of us were able to secure investment because we had partial but non-complimentary solutions and lacked a true platform. To my knowledge, to this day there has been limited use of the separately developed technologies and not a single export dollar earned by anyone. Foreign companies, better organised and resourced, now lead the field.

We can only imagine how different it would have been if we had known about each other's programmes early and pooled our resources to build a platform technology and gain the critical mass to commercialise it effectively.

Research driven start-ups

Research driven start-ups are different because they come with special challenges that must be addressed for them to succeed:

1. Leadership
2. Development
3. Funding
4. Scale

Leadership is a challenge for research driven start-ups because unlike private sector start-ups, they don't come with an entrepreneur: someone who lives and breathes the innovation and is passionate about the possibilities. In the research part of the innovation ecosystem this role has to be filled by a surrogate: at the University of Waikato this is WaikatoLink.

Development is a challenge for research driven start-ups because research outcomes are rarely marketable on their own; they require development and application to market before they have any value. At WaikatoLink a technology development team performs this role. Science students work alongside academics to build proof of concepts and prototypes and business students work with WaikatoLink staff on finding and nurturing the commercial opportunity. Early-stage start-ups are incubated by WaikatoLink staff, who perform management and business development roles until the start-ups receive sufficient external investment to hire their own workforce.

Funding is a challenge for research driven start-ups & New Zealand is not unique here. Funding is a challenge globally, caused by the magnitude of uncertainty and risk of research driven start-ups relative to other investment targets. This is exacerbated by the necessity for translation from research outcome to commercial opportunity and the often protracted time to market, especially for life science start-ups.

Scale is a challenge for research driven start-ups because the level and range of expertise available are far less than is optimal. Scale is a problem first when preparing inventions for transfer into start-ups and then again once the start-up is created and needs to grow.

Collaboration and start-ups

We need to give our research driven start-ups the best chance of success and the best way we can do this is to utilise all of the expertise and resource we have in the country on an NZ Inc basis. Most of the resources and expertise required exist here, they just need to be co-ordinated.

With collaboration the challenges of leadership, development, funding and scale are not resolved but they are significantly reduced.

UniCom

Remembering the lesson from my story about innovation undertaken in isolation and the lights going out, WaikatoLink was determined to create a mechanism to enhance collaboration between technology transfer offices and to provide visibility into innovation across institutionsAn example is the establishment of UniCom.

UniCom is a consortium of half of NZ's universities that operates a devolved Foundation for Research Science and Technology pre-seed fund that invests in early stage technologies, some at the pre-start-up stage. The fund is run on a commercial investment fund model and has external members with world renowned expertise on its investment committee. UniCom has proven its worth not just in improving the quality of investments but also as a platform for collaboration via visibility of projects, and sharing of networks and expertise.

AngelLink

In fact the success of the UniCom collaborative model was the inspiration for AngelLink. The formation of UniCom was initiated and led by WaikatoLink, but has taken on a life of its own in a way that we see AngelLink replicating.

AngelLink has been established to be a specialist mechanism for linking angel investors who are comfortable and have a track record in the space, with research driven start-ups.

AngelLink has been carefully designed. WaikatoLink and others reviewed international research on successful angel investment, consulted with some of New Zealand's most engaged angel investors and applied the lessons on collaboration from UniCom's experience in order to establish a set of over arching principles to give start-ups the best chance of success and investors high returns.

These over-arching principles are:

1. A national focus

No region in NZ has a critical mass of the type of angel investors required for research driven start-ups. This has necessitated a national focus.

2. Trust and familiarity

   The more people get to know each other the more trust is built and the easier it gets to do deals. Familiarity with deal structures and standardisation of processes helps make negotiation simpler.

3. Robust and consistent due diligence

   Research driven start-ups have strong intellectual property elements that require specialised due diligence. AngelLink has adopted WaikatoLink's deal preparation and due diligence models, which have been proven through many successful investments.

4. Experienced research start-up investors form the core of the network with

5. Other investors co-investing and learning from these experienced investors

6. One of the experienced investors must take the lead in any investment

7. Close engagement post-investment

   AngelLink expects the lead investor to undertake regular contact and mentoring of the company. All investee companies will be required to participate in some form of incubation, whether residential or virtual.

8. Syndication

   AngelLink deals will not only be available for co-investment from AngelLink members, but will also be made available through syndication with other Angel networks. By carefully broadening the investor base we can assist angels to build portfolios while also increasing the pool of shareholder capital that start-ups can tap into for further "inside" rounds.

9. Visibility and planning for future rounds

   Research driven start-ups will need several rounds of funding and the type of funder will change as the start-up progresses. The earliest money will come from pre-seed funds such as the Foundation for Research Science and technology's Pre-seed accelerator fund, then early start-up funding will come from multiple angel rounds. Growth will be financed by one or two Venture Capital rounds and eventually, if we hope to keep these high growth companies in New Zealand, they will need to access the public market via the NZX. AngelLink involves all of these players from the very beginning, so that early investor can be confident that there are investors willing to come in on future rounds, and so that start-ups can be in the best shape not just for the next round, but also for the others that must follow.

AngelLink creates a community of experts from throughout the innovation ecosystem and combines them with access to funding so that the best resources are applied to research driven start-ups, wherever in New Zealand they might come from.

Closing

NZ is too small to take a fragmented approach within the innovation ecosystem. Collaboration is essential for the scale and funding required for research driven start-ups to achieve what must be achieved for New Zealand's prosperity.

Unicom, and now AngelLink, represent collaboration at work.